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ABSTRACT

Resources for higher education in the Arab states have depended on the overall economic situation of the countries in the region, and the economic growth of the region has been disappointing over the years. Of the 16 countries of the region, 7 had a negative average annual growth rate during the period 1960 to 1994, and 3 countries had an average annual growth rate of less than 1%. In spite of this economic weakness, the region continued to expand its higher education facilities. This increase occurred in spite of a decrease in the share of public expenditure for education in the Gross National Product overall. Most striking is the decrease in the share of allocation to higher education in the total allocation for education. To enable the higher education system to educate as many students as possible, several policies could be adopted, but different modes of privatization would appear to be the most effective approaches. The advantages and disadvantages of privatization are discussed, and the strategies Arab States could adopt in respect to privatization are outlined. Whatever the share of the state and private sector today, the state should move toward financial decentralization in order to encourage the mobilization of untapped resources and raise the system's cost consciousness with the application of norms for resource allocation and utilization while providing incentives for operational efficiency. The system that evolves must be flexible with precautionary measures for accountability and transparency to allow for any open system following the market forces of demand and supply. (Contains 8 tables and 17 references.) (SLD)

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No. 30

Diversification of sources and the role of privatization in financing higher education in the Arab States region

Bikas C. Sanyal

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Bikas C. Sanyal

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Diversification of sources and the role of privatization in financing higher education in the Arab States region

by
Bikas C. Sanyal

1. Introduction

After the Second World War, during the period of rapid and massive expansion of higher education, the state had taken the responsibility of providing the necessary resources in most of the countries around the world on the grounds of both equity and efficiency.

The role of the private sector diminished significantly. By the end of the seventies, higher education was mostly a publicly provided service except in the USA, Japan, the Republic of Korea and the Philippines. In the countries where the private sector had a significant role, the contribution of the state, direct or indirect, was also not negligible.

There were three arguments in favour of the dominance of the state role. First, during the post-colonial period many former colonies had to replace the expatriates by suitably qualified nationals and the states needed to influence and control the machinery that were to prepare the individuals for leading positions in many walks of life. The same argument was applied also to countries which were not colonized (including the colonizing countries), during the post-war reconstruction period and the period of the economic boom, which needed high-level manpower. The second argument was an economic one. It was believed that although higher education would result in higher returns, there was uncertainty in these returns at the individual level. It was understood that to achieve a socially optimum amount of investment in higher education, the state, representing all citizens, must play an active role. In the 1960s it was observed that a large number of students, potentially capable of

contributing to their countries' development, were not continuing higher education, to the detriment of themselves and of their countries. At about the same time, the Robbins Report came out in the United Kingdom, with recommendations for massive expansion in higher education, with dominant participation of the state. Many governments around the world followed that argument in formulating their higher education policies. The third reason for the state's dominant role in higher education was the 'equity' argument. In the welfare-dominated post-war period, it was argued that unless the state subsidized highly expensive higher education, many people would be unable to benefit from it – and higher education could remain the monopoly of the rich and the elites of the society.

So the state's role in financing higher education increased rapidly and whatever role the private sector was playing, especially in the former colonies in the developing world before their independence, diminished, at least relatively. One observed the same phenomenon in the Arab States region of the world.

During the sixties and seventies, resources for higher education all around the world, in general, were enough to justify the dominance of academic criteria to decide on resource allocation. Gareth Williams (1992) explained the phenomenon, in the case of the United Kingdom, as follows:

"The internal dynamics of disciplines and subjects rather than external economic or social pressures determined patterns of academic activity. Incremental block grants and detailed line-by-line budgets were the basis for allocation of funds. Incremental block grants led to highly developed collegial forms of management in British universities and line-by-line budgets led to the bureaucratic form of resource allocation to ensure efficient resource use, response to changing environment and maintenance of quality."

Most of the Member States of the Arab States region faced the same phenomenon.

When resources are scarce, the collegial model of resource allocation based on consensus of the academia may degenerate into protection of vested interest,

creating difficulty in introducing any innovation. Under the same circumstances, the bureaucratic model of resource allocation requiring a rigour of accountability generates a sense of alienation of the academic staff from the bureaucracy of the funding agencies.

Resources for higher education in the Arab States region depended on the overall economic situation of the countries in the region.

The Arab States region covered by UNEDBAS had 4.4 per cent of the population of the world with only 1.6 per cent of the total world wealth as measured by Gross Domestic Product (GDP). However, it had to absorb 5.1 per cent of the world's higher education population (UNESCO, 1997; World Bank, 1997), (See *Table 1*).

Table 1. World population and Gross Domestic Product in 1995

	World	Arab States[1]	Ratio (%)
Population 1995 (millions)	5 737	250	4.35
GDP 1995 (millions)	27 924 682	460 921	1.60
Population in Higher Education (%)		5.1	

[1] Member States of the Arab States region covered by UNEDBAS by sub-region are as follows:

Sub-region I (Maghreb Countries): Mauritania, Morocco, Algeria, Tunisia, Libyan Arab Jamahiriya

Sub-region II (Horn of Africa and the Nile Valley): Egypt, Sudan, Djibouti, Somalia

Sub-region III (The Arabian Peninsula, or the Gulf States): Yemen, Saudi Arabia, The Sultanate of Oman, U.A.E., Qatar, Bahrain, Kuwait

Sub-region IV (The Middle-East): Iraq, Jordan, Syria, Lebanon, Palestine

Sources: UNESCO: UNESCO Statistical Yearbook, 1997.
World Bank: World Development Report, 1997.

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The economic growth of the region has been disappointing over the years. Among 16 countries of the region (for which data could be collected on Gross Domestic Product (GDP) per capita) seven had a negative average annual growth rate during the period 1960-1994. An additional three countries had an average annual growth rate of less than 1 per cent (UNDP, 1997), (See *Table 2*).

Table 2. GDP per capita and average annual growth rate

Country	GDP per capita in $ 1994	Average annual rate of growth (%) 1960-1994
Bahrain	7 533	-1.7
United Arab Emirates	18 603	-3.4
Kuwait	10 301	-5.2
Qatar	NA	NA
Libyan Arab Jamahiriya	5 630	1.7
Lebanon	NA	NA
Saudi Arabia	5 246	0.9
Syria	1 063	1.8
Tunisia	1 428	2.5
Algeria	2 348	0.5
Jordan	1 629	-2.9
Oman	5 683	6.1
Egypt	722	3.3
Morocco	942	2.0
Iraq	781	-4.7
Yemen	NA	NA
Mauritania	494	0.9
Sudan	765	-0.2
Djibouti	674	-4.4
Somalia	150	NA
Palestine		

Source: UNDP: Human Development Report, 1997.

In spite of economic weakness, the region continued to expand its higher education facilities. Gross enrolment ratios (enrolment as a percentage of

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the 20-24 age-group population) increased from 13.7 per cent in 1985 to 14.5 per cent in 1994. Although the relative growth was less than that for the whole developing world, its higher base called for a stronger effort in increasing the ratio (see *Table 3*).

Table 3. Enrolment ratio and public expenditure: comparison between the Arab States and all the developing countries

Category	1985	1990	1995
Gross enrolment ratio (p.c.)			
Arab States	10.7	11.4	14.5
Developing countries	6.6	7.1	8.9
World total	12.9	13.8	16.2
Public expenditure on education as % of GNP			
Arab States	5.8	5.2	5.2[1]
Developing countries	4.0	4.0	3.9
World total	4.8	4.8	4.9
Public expenditure on education per capita (US$)			
Arab States	122	110	110[1]
Developing countries	28	40	48
World total	124	202	252

[1] Refers to 1994.

Source: UNESCO: UNESCO Statistical Yearbook, 1997, Tables 2.10 and 2.11.

What is striking is the fact that this increase occurred in spite of a decrease in the share of public expenditure for education in the Gross National Product (GNP) from 5.8 per cent in 1985 to 5.5 per cent in 1994, and a more severe decrease in public expenditure on education per capita from US$ 122 in 1985 to US$ 112 in 1994. In both cases the Arab States region had lost, whereas the whole developing world had gained significantly, in relative terms, especially in the allocation of resources per capita (see *Table 3*).

Most striking is the decrease in the share of allocation to higher education in the total allocation for education. Out of eleven countries of the region for

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which UNESCO could provide statistics for two comparable periods of time, seven had lost their share over time (see *Table 4*). This shows a further loss for the higher education sector in respect of its financial situation.

Table 4. Trend of the share of public expenditure in higher education in total public educational expenditure (percentage)

Country	Year	Percentage
Djibouti	1979	19.1
	1991	13.9
Egypt	1980	30.9[1]
	1994	35.7
Iraq	1980	24.1
	1991	20.6
Jordan	1980	22.8
	1995	34.4
Kuwait	1980	16.5
	1990	16.0
Mauritania	1980	13.5
	1995	20.4
Morocco	1980	18.3
	1992	16.3
Oman	1986	15.3
	1993	5.8
Saudi Arabia	1992	19.7
	1995	17.8
Syria	1980	32.7
	1994	21.3
Tunisia	1980	20.5
	1993	21.3

(1) The expenditure for the university hospitals is included in these figures (accounting for 50 per cent of the total credits of some universities). These expenditures should be regarded as functional, for health expenditures.

Source: UNESCO: UNESCO Statistical Yearbook, 1997, Table 4.2.

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In addition to general economic reasons, the higher education system faced financial shortfalls due to several other reasons, given below.

1. Demand for higher education was increasing at a faster rate than the government could cope with financially.

2. Priorities for lower levels of education were increasing, especially for primary education, which was being recognized as a basic human right for the people.

3. Demand for higher education was becoming more and more customized (differentiated demand) because of changing labour market needs, on the one hand, and diversified clientele, on the other, requiring additional resources.

4. Rapid obsolescence of skills because of knowledge explosion and accelerating technological development which called for more financial resources.

5. Emphasis on scientific and technological research and development called for more funds.

6. Priority to improve quality of teaching and research was becoming more important.

To enable the higher education system to educate as many students as possible, several policies could be adopted: (i) improving efficient utilization of resources; (ii) encouraging income generation; (iii) adopting cost-recovery policies including introduction of a discriminatory fee-paying system; and (iv) encouraging privatization.

All these policies would require a change in the two resource allocation models mentioned earlier. As an alternative to the collegial and bureaucratic

models of resource allocation the market approach was being proposed by the economists, which would follow market forces of demand and supply and emphasize the process of establishing priorities. In this process, "the academics, who would provide the expertise, the institutional managers, who would provide broader transdisciplinary viewpoints, the government, who represents the society and students, and their employers, as consumers of the academic sciences – the stakeholders will play their respective roles" (Williams, 1992).

2. Changing patterns of financing higher education in the Arab States region

The state bears the major burden of financing higher education in most of the countries in the Arab States region. In the Maghreb region (sub-region I) the investment funds are entirely provided and controlled by the state. The operational budget, i.e. the salary bill, the repair and maintenance cost and the social expenses of the students, is also borne principally by the state.

The institutions generate very little resources on their own. Very rarely do the institutions co-operate with the productive sector. However, there are exceptions.

In spite of the dominance of the public sector, Egypt and the Sudan (sub-region II), the United Arab Emirates and Bahrain (sub-region III), Lebanon, Jordan and Iraq (sub-region IV), have supported development of the private sector. Palestine's (sub-region IV) whole university system is private. Although the American Universities of Beirut and Cairo are very old private establishments, new private institutions are emerging in the other countries. However, most of those emerging in the poorer countries depend heavily on the state for finance.

Very few countries have rationalized tuition fees. In most cases this is only symbolic and contributes very little to the overall finance. In certain cases, this is paid directly to the Ministry of Finance.

Few countries of the region use cost analysis for financing the operation of a programme. Most of them follow line-item budgeting which is rigid and very often leads to wastage because of restrictions on carry over. However, the countries are now understanding the need for changing financial management procedures as a whole, especially in the method of mobilization of new financial resources so as to reduce the state burden, as will be observed from the examples given below, covering the four sub-regions.

Sub-region I: *Tunisia*

In an effort to improve management of finance in higher education, Tunisia has introduced a new system of resource allocation called "system of analysis and management of higher education" (*Système d'analyse et de gestion de l'enseignement supérieur – SAGES*). The system uses a set of indicators for resource allocation covering academic and support staff and operational activities. Norms, such as student/staff ratio, space per student, space utilization, utilization of staff time, are being constructed in the *SAGES* system to facilitate rationalization of resource allocation among institutions and regions.

In an effort to diversify sources of financing higher education, the country has now allowed the institutions of higher education to develop co-operation with industry and the community and generate income through:

(i) training on a cost-recovery basis;
(ii) research contracts;
(iii) expert service.

In Tunisia, these incomes have to follow state rules.

However, the authorities have begun to appreciate the need to introduce more flexibility in the rules for income-generating activities of the institutions so as to provide incentives for diversification of funding sources.

In addition, the government is now encouraging the role of the private sector in higher education. In the words of the Director-General of Finance of the Ministry of Higher Education:

"The encouragement of the participation of the private sector is becoming indispensable and along with it the preparation of a legal framework for private higher education so as to respond to the need for pedagogic and financial diversification" (Baouandi, 1997).

Sub-region II: *Egypt*

Enrolment of higher education in Egypt has increased at a much faster rate than its financial resources. For example, in the case of the University of Mansoura enrolment increased from 74,310 in 1991-1992 to 237,873 in 1995-1996 in its 17 faculties. Similar increases could be observed in the other universities of the country. The state's share of finance reduced to 85 per cent in 1994-1995 for the university, the remaining 15 per cent being generated by the university in the form of:

1. *Tuition fees and other fees:* the university applied a system of 'compulsory donation' for transferring a file of application from one faculty to another for admission. This was abandoned in 1996. In recent years, a new system of admission to the faculties of Law, Commerce and Arts allows a less qualified student to obtain a place on an admission fee of 360 LE (Egyptian Pound) whereas the annual tuition fee is a meagre 10 LE. The income from these fees is controlled by the faculty following the system and distributed as follows:

- 55 per cent goes to the faculty which applied this system;
- 20 per cent goes to the other faculties;
- the rest is given to the students of modest means for their fees and/or purchase of books, etc.

2. *Income generated by specialized centres* from:

(a) co-operation with industry;
(b) patent rights;
(c) provision of continuing education to industrial employees;
(d) access to laboratory and scientific equipment;
(e) manufacturing intermediate industrial products;
(f) extension services; and
(g) language instruction.

These centres do not have to follow traditional fiscal restrictions imposed by the state.

3. *Private donations*, especially for student fellowships.

With the agreement of the Supreme Council of Universities, as of 1994-1995, 240 specific contracts have been agreed between the public universities of Egypt and the industrial concerns. In all public universities a post of Vice-Rector has been created to develop and manage co-operation with industry and the community (Dowidar, 1997; Moussa, 1997).

Sub-region III: *The Gulf States*

With the exception of Bahrain, formal higher education is entirely paid for by the states. For Bahrain, the financing comes from the students' fees and the government budget. In Kuwait, higher education has a special budget with reasonable autonomy and flexibility. In Saudi Arabia, although the state does not charge any tuition fees, there is a private sector of higher education which is self-financing. Higher education is offered by private enterprises such as Saudi Airlines, Petromin, Aramco, Sabic, etc. In the Sultanate of Oman, running parallel to the state sector, there are private institutes and specialized colleges belonging to individuals or private companies which run their financial affairs themselves. In 1995-1996 one third of students studying abroad financed their own studies.

The general situation is that the state is responsible for the major share of financing higher education in the Gulf States. Foreign studies are funded partially by the students themselves. The training programmes organized by the transnational corporations are self-financed, i.e. the state does not bear any cost for these programmes.

One can observe an increasing trend of the setting up of programmes by the state, on the one hand, and the private sector, especially multinationals, on the other. This applies to both training and research.

Sub-region IV: *Jordan (the case of Yarmouk University)*

The Yarmouk University of Jordan was set up in 1976 and reorganized in 1986, with the separation of the College of Science and Medicine into a second university, named the Jordan University of Science and Technology. The university has a diversified system of financing its activities as follows:

1. *Centrally collected taxes.* An innovative method applied by the Ministry of Finance, Kingdom of Jordan, is to collect a 'university tax' on each single sale, by or through individuals or corporations in the country. The revenue is distributed among five semi-state universities by the Council of Higher Education according to four basic categories of weights based on:

   (i) the number of students;
   (ii) development needs;
   (iii) total budget; and
   (iv) new programmes.

2. *Tuition and fees.* The second largest source of revenue for higher education is students' tuition fees and other lump-sum fees paid by students for their services. The university also receives fees for its services provided for the community and private enterprises, commissioned studies, fees from local and regional institutions, and for consultations and training.

3. *The government subsidy.* Based on the recommendations of the Council of Higher Education and the decision by the Cabinet, the Ministry of Finance allocates this subsidy for each university and transfers the amount every three months.

4. *Donations.* Its main source is the private sector. Individuals, local, regional or international institutions make donations on special appeals from the university.

5. *Investment funds.* The university invests its assets in stocks and real estate. The returns are sometimes used for financing income-generating projects.

6. *Loans.* This is an exceptional source of financing deficit, usually provided by the central government on an ad hoc basis or by the banks guaranteed by the government. *Table 5* below gives the evolution of different sources of finance for the period 1990-1994 (Adwanan, 1995).

The patterns of financing higher education in the countries of the region demonstrate to a certain extent the symptoms observed in the industrialized countries. Cited below are cases which have been influencing the patterns of financing higher education in many developing countries of the world, including some in the Arab States region. In addition another case will be mentioned for its very special nature.

Table 5. Distribution of revenue sources for 1990-1994 in Yarmouk University, Jordan

Source	1990	1991	1992	1993	1994	% 1994
Government subsidy	950 000	475 000	000	000	500 000	2.5
Tuition	4 382 451	5 191 212	5 118 503	4 950 510	5 678 149	28.0
School tuition[1]	150 689	163 922	219 227	202 169	186 182	1.0
Consultations	61 629	54 826	61 071	84 700	102 664	0.5
Taxes	4 933 172	5 761 714	8 811 338	8 707 897	8 696 458	44.0
Others (Donations)	348 966	355 205	555 473	365 979	509 765	2.6
Capital returns	1 019 478	972 644	1 233 458	1 204 192	1 129 455	5.6
Deficit	000	000	000	4 475 824	3 128 348	15.8
Total revenues	11 846 385	12 974 523	15 999 070	19 990 271	19 931 021	100

[1] Tuition received from institutions/enterprises receiving training.

Source: See Reference (Adwanan, 1995).

3. Changing patterns of financing higher education: three country cases

The United Kingdom

In the United Kingdom, the initial impetus to change the financing mechanism of higher education was given by the 1985 Jarratt Committee to investigate university efficiency, which made the following recommendations:

- more business-like structures for the universities;
- a strong central executive authority responsible for strategic planning at the institutional level;
- a Vice-Chancellor acting as a chief executive and having received management training;

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- small high-level planning and resource committees;
- the use of performance indicators;
- staff appraisal and development;
- greater devolution of financial management to departments.

Subsequently, in 1988, a nationwide project funded by the government to computerize key areas of management information was begun. Institutions were required to collect core statistics which included data on students, staff, capital assets, equipment, financial resources, and management information, so as to give proper support to academic departments in devolved budgeting.

Since the early 1980s, government policy has been dominated by a number of factors, including the following:

- the concern to reduce public expenditure per student in higher education;
- the need to increase efficiency by encouraging universities to earn income and also to be much more strictly accountable for grants received, a requirement which has become much more important in the 1990s.

The first round of cuts in the early 1980s ranged from 6 to 30 per cent, depending on the institution. Some special arrangements mitigated the worst effects, such as early retirement compensation and the protection of priority engineering and technical programmes. Subsequently, strategies focused on separating resources for teaching and research and making funding conditional on delivery.

The 1988 Education Reform Act gave greater autonomy for resource management of institutions, but set stricter accountability measures. It was expected that resources would be used more effectively if those responsible for educational services were given maximum discretion to deploy them in response to local needs.

The Universities Funding Council (UFC), which later became the Higher Education Funding Council (HEFC), implemented a system of funding whereby institutions put in bids for certain numbers of student places by broad bands of disciplines. In practice, universities were reluctant to bid too low and thereby force down the unit of funding even more. As a result, in 1991 the UFC abandoned the system and set only provisional targets. As of 1992, it was decided that for the next two years universities would be guaranteed only the number of funded student places allocated for 1991-1992. Any decisions on increases were to be based on the proportion of students at a university above the funded number. In 1996, it was proposed that institutions should bid for additional numbers on the basis of quality, demand, national and regional need. Bids were to be assessed by review panels established to reflect the broad geographical distribution of institutions funded by the Council.

In short, the government had found a way of securing expansion at low marginal cost and higher education institutions were obliged to accede in order to obtain their funds. Public spending per graduate in the United Kingdom is now lower than in most other European countries.

The HEFC has published a code of practice for both internal and external university audit, and supervises the financial health of institutions.

This restructuring of the mechanisms for funding the universities imposed great strains on the management of institutions with a number of results:

- many of them devolved budgets to the departmental level, either including or excluding staff salaries;
- most institutions also appointed or increased the number of senior officers concerned with fund raising, industrial liaison and overseas students;
- more information was made available within the institution for accountability and decision-making purposes;

- the quantity and quality of comparative information was improved, particularly with the annual publication *University management statistics and performance indicators*, which obliges institutions to ask questions and seek reasons for variance, thereby making it possible to compare expenditure on central administration, libraries, computers and premises;
- programme budgeting has been generally adopted and the cost per student per annum by discipline is now compared amongst universities.

Most universities have adopted some type of formula funding in allocating resources internally by using weighting (for example, 1 Ph.D. = 3 undergraduates for the purpose of staff, library and laboratory allocations), as well as norms and ratios. Some maintain central control over the establishment of staff positions. Others allocate all funds, after taking off the resources necessary for central administration, to faculties to be shared by consensus among the departments.

Thus there is a new emphasis on the department as a performer and the pressure of competition between departments. Management of finance is considered to be one of the critical tasks for the next decade. The role of finance officers in the United Kingdom universities is becoming increasingly important. There has been a rise in the need for professional administrators with the skills necessary for effective management within a rapidly changing higher education system, with new funding structures and new penalties.

In 1995 the HEFC reduced government contribution further. The funding these days is based on a set of parameters: percentage of academic staff, number of students, number of graduates, percentage of students on continuing education, quality of training and research. These measures have reduced expenditure by 15 per cent and are expected to reduce it further. Most recently, in July 1997, the government announced the imposition of tuition fees for all levels of university students as from 1998 (Sanyal and Martin, 1997).

France

In France, the Ministry of Education generally prescribes budgets, student admissions and fees, buildings and size of staff. The Ministry also validates courses and sets the formal structure of university management. Initiatives to improve efficiency therefore usually come from the government. There are exceptions, and some relatively autonomous institutions do exist. Notable examples are the *grandes écoles* which are, in some cases, privately funded and are administered by directors and representatives of the funding authority and of the students.

The extent of centralized control in France is decreasing, as has been shown by recent developments.

In 1989, the Ministry of Education initiated new procedures for joint planning by the Ministry and the higher education institutions. They have to prepare and implement an institutional development project for a four-year period. This procedure is intended to strengthen the autonomy of the institutions, the consistency of their development policies and the role of the head of institution. Within the framework of overall national guidelines, the state and the institutions commit themselves to certain objectives and means laid down in a contract to be signed by the state and the institutions. Higher education institutions receive a part of their financial allocation (around 10 per cent) on the basis of their commitments and their intended activities, as stipulated in the contract. However, the majority of the resources are still allocated on the basis of criteria linked to the fulfilment of the basic mission of the institution, which is teaching and research.

More recently, within the framework of a national policy towards decentralization, called the State-Region Plan, the regional and local authorities also contribute to the financing of higher education institutions, in particular with regard to new infrastructural projects and the renovation of buildings and equipment.

In France, the state provides the majority of financial resources. Several systems for the allocation of financial means have been used successively. In the past, core funding was allocated by means of norms distinguishing between three types of allocation: teaching, recurrent expenditure and development. The teaching allocation was calculated on the basis of teaching hours not covered by the statutory assignments of the existing academic staff.

Since 1993, the SANREMO system (Analytical system of financial allocation) has been in operation. Its objective is to take into account the real recurrent costs and differences among groups of disciplines with regard to student costs and to ease out differences in staffing levels existing among institutions. Student/staff ratios, differentiated by level of study and group of discipline, have been defined. It is intended to redeploy academic staff from those institutions with excessive staffing levels, to those which lack staff.

With regard to the financial difficulties of the State, and in the light of ever growing student numbers, institutions have been trying to increase their private income. In 1994, 44.43 per cent of total income was other than governmental funding. Additional revenue came from sources such as:

- student fees: 9.95 per cent;
- contract research for private and public enterprises: 6.06 per cent;
- subsidies in kind, or in nature, from local or regional authorities: 4.92 per cent;
- training tax (1.5 per cent of the salaries to be paid by the enterprises): 2.34 per cent;
- continuing education: 7.99 per cent;
- contracted studies: 6.41 per cent;
- interest rates: 1.65 per cent;
- commercialization of products and publications: 3.80 per cent;
- others: 4.72 per cent.

The financial autonomy of institutions allows for the establishment of financial reserves from end-of-the-year surpluses. They are also allowed to carry over parts of the core funding and to spend it on investment and equipment items. Within certain limits, institutions may also invest in the public capital markets and gain income from interest.

Student fees and fees for examinations form part of the private income; however, the amount is determined by the national administration. Institutions have the right to set student fees for university diplomas which are not accredited by the Ministry, and for all other services they offer within the framework of their basic mission (Sanyal, 1997).

China

China, a socialist country, makes an interesting case for developing countries to observe the phenomenon of diversification of sources of financing higher education transcending ideological barriers.

Higher education in China was almost exclusively funded by the government until the beginning of the 1980s. During the 1980s, as part of the overall economic reform, the central government delegated financial responsibilities to provincial governments and line ministries in financing higher education. The reform replaced the line-item budget with a block grant allocation from the state to the universities and gave the higher education institutions the autonomy to decide how to spend the money. The state retained the audit and supervisory functions while holding universities accountable for the appropriate utilization of public resources. The unspent amount could be retained by the universities. The block grant was based on a formula with the number of full-time equivalent students as the major allocation parameter. Allocation for special items and capital outlay was based on enrolment and other ad-hoc considerations. The universities were encouraged to generate their own revenue. In the case of some key universities such non-government revenue exceeded 50 per cent. The State Education Commission recognized 22 private higher education institutions and more than 1,000 non-state institutions were approved by provincial education departments as of

November 1996 (Zhou Nanzhao, 1997). *Table 6* shows the evolution of the share of funding from different sources in China from 1978 to 1992, as estimated by a World Bank mission (World Bank, 1997).

Four principal sources of income are: university enterprises; commissioned training for enterprises; research and consultancy services; and donations.

In addition, the universities are now encouraged to charge tuition fees. As of 1995, for most universities, the tuition-fee level was set around Y1,300 ($1.00 = Y8.6) for students in the State plan. For some subjects the fee level can be as high as Y2,700. However, students in teacher training institutions are not charged any fee. China had set a goal to recover 20 per cent of the cost of higher education by 1997 from tuition.

Table 6. Percentage distribution of funding higher education from different sources in China

Source	1978	1990	1991	1992
1. Total budgeted allocation from government	**95.9**	**87.7**	**86.9**	**81.8**
1.1 Allocation for recurrent expenditure	74.8	64.9	65.3	61.4
1.2 Allocation for capital expenditure	21.1	22.91	21.6	20.4
2. Total university-generated revenue	**4.1**	**12.3**	**13.1**	**18.2**
Total of 2.1 and 2.2	4.1	10.5	11.4	13.6
2.1 Net income from university-funded activities, among which:		10.3	10.7	12.8
• income from university enterprises		2.8	3.1	3.7
• income from commissioned training		2.1	1.9	2.3
• income from educational services		0.9	0.9	1.1
• income from research and constancy		1.0	1.2	1.3
• income from logistic services (dining halls and guesthouse, etc.)		0.7	0.7	0.7
• income from other funded activities		2.7	3.0	3.7
2.2 Donations and others		0.2	0.7	0.8
2.3 Student tuition and fees		1.8	2.9	4.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: World Bank: China Higher Education Reform, 1997.

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4. Diversified sources of financing higher education

It has been observed in the previous examples that, with less state support and limited opportunities to impose or increase fees, many universities have had to become involved in a wide spectrum of income-generating activities.

Various routes have been followed to diversify funding sources. Traditionally, income is generated by undertaking training, research and service contracts on behalf of public and private companies. The returns on services such as consultancies and developmental work are expected to cover all costs and indeed to provide the institution with a net income.

In some countries of the region, public institutions are free to make use of these earnings, but in Tunisia, for example, it has been necessary to amend the regulations governing the finances of institutions, or to make other special provisions to enable them to retain their outside earnings. However, it is obvious that countries which are predominantly agrarian or have a small modern industrial sector (Mauritania, for example), have limited scope for service contracts. However, China has indicated, even for these countries, how to go about this.

Another traditional way of raising financial support from industrial and commercial firms is in the form of grants or scholarships for specific academic or professional programmes. As far as developing countries are concerned, direct donations have been strong in the Arab States, where the establishment of foundations offering financial support for students has been common. Private foundations, for instance, play an important role in several countries of the region.

The following is an extended list of possible sources of finance for higher education:

- private students and organizations including religious organizations and business enterprises;

- variations of tuition fees;
- examination fees;
- resident fees;
- contracts for research, courses and consulting (usually a percentage of revenue earned goes to the department concerned);
- intellectual property rights (patents and books);
- commercial activities (printing, book shops, rental of facilities);
- investments in productive areas;
- endowments;
- foreign aid.

The market approach to financing higher education should be adapted to the modalities of a particular higher education system. The income-generating activities, in particular, should be demand oriented and locally specific. In addition, they should be tested by means of an experimental phase. Williams has formulated three main propositions in support of the market approach, emphasizing the role of the private sector.

"One is the belief that the private sector can relieve governments of some of the cost burden. The second is that many of the benefits of higher education accrue to private individuals and they should be prepared to pay for them. The third premise is that both external and internal efficiency improve if government agencies buy services from universities rather than make grants to them" (Williams, 1992, pp. 137-138).

We shall deal with the process of privatization in the following section.

5. Privatization: Definition and development

From the above discussions, one can observe the process of transfer of the role of the government in financing and administering higher education programmes to non-government agencies and to individuals – as private entities. The phenomenon of the transfer of ownership and control from the state sector to the private sector, be it an individual, organization, enterprise or community, is defined as privatization. Privatization is a process. Privatization does not exclude public finance. A public institution can also have a private programme or activity run privately.

Several reasons have been identified for the development of the private sector in education (James, 1991). First: excess demand for higher education when the absorptive capacity of the public system (free or subsidized) is less than the demand for places. One could observe this phenomenon in many developing countries from Brazil to China and the Philippines. Second: differentiated demand to respond to heterogeneity in people's preferences about educational content and method because of religious, linguistic, cultural and ethnic reasons, on the one hand, and the need for special skills among enterprises, on the other. Political ideology played an important role in the development of the private sector in higher education during the colonial period in India. Sectarian institutions of higher education are very common in all continents of the world. Institutions of higher education set up by enterprises to meet the needs for special skills is a relatively recent phenomenon.

In addition to the demand factors, supply forces also play an important role in the development of the private sector. Use of institutions of education as a mechanism for shaping values, ideologies and socialization has influenced the development of the private sectors. Government policies also have shaped the development of the private sector, e.g. by restricting public spending, provision of public subsidies to private institutions, legislating corporatization and privatization, even allowing, in some cases, business organizations and private agencies to set up institutions of higher education for profit. We shall discuss below the different modes of privatization.

6. Different modes of privatization

Privatization can be implemented in a variety of ways. Lieberman (1989) has listed the following:

1. *Contracting out of public services* to non-government entities to provide or help to provide public services without the help of public employees. Many support services of the institutions of higher education are now being contracted out, e.g. catering and printing facilities which are needed by the institutions.

2. *Vouchers*, ordinary pieces of paper given by the government that can be used like cash or as a credit for receiving education in an institution of the client's choice.

3. *Load shedding* refers to state withdrawal from both funding and providing an educational service. It is being observed in many countries around the world now, especially in residential or catering services for educational purposes. The legislation allowing the establishment of private institutions of higher education is a corollary to this phenomenon.

4. *A franchise* – an arrangement whereby a private organization is awarded monopoly privileges to provide a service where the students may or may not have to pay the cost. For example, a computer-manufacturing firm to operate the computer centre of an institution. Both 'franchise' and 'load shedding' are direct incentives towards the establishment of private institutions.

5. *Voluntary service*, which provides education and related services performed by volunteers. For example, religious organizations and non-governmental organizations run higher education institutions for reasons mentioned earlier, often on a voluntary basis.

6. *The sale of government assets*, transferring property rights to tangible assets from government to the private sector for an agreed-upon price (this is happening now in Malaysia in respect of the public universities).

7. *Leaseback arrangements* are the construction and purchase of public educational and related facilities by private parties, who then lease these to the public sector under mutually agreed-upon terms. For example, a conference centre required by an institution may be constructed by a private organization and leased to the institution at a rental amount agreed upon prior to construction.

When a public institution is working for a private enterprise or individual for training, research or any other service under contract, the ownership and control of the activity is also lost to some extent to the sponsor. It is happening more and more, as we have noted before, in the research and consultancy services, training for enterprises, etc. We can also observe the same phenomenon when students, as private individuals, are charged full fees on a cost-recovery basis for their tuition. The public institution in that case has to cater for their special needs and bend their rules with loss of control, to some degree at least. Although these phenomena are not explicitly included in the above list, these are also phenomena of privatization.

Whatever is the mode of privatization, except in exceptional circumstances the users of education have to bear the cost.

Most of the above modes are applicable to the Arab States region. In reality it is already happening, especially in the Gulf region, where a parallel system of higher education is being maintained by the transnationals and other non-governmental agencies for the purpose of their own specific needs. Lebanon, Jordan, Iraq, the United Arab Emirates, Bahrain, Sudan, among others, are now encouraging the development of privatization.

7. Arguments in favour of privatization

Privatization in education is becoming a major economic and political trend around the world today, transcending political ideologies, as can be noted in communist China, on the one hand, and the United Kingdom and France, on the other. There are several reasons, which are given below.

1. Private institutions cost less per student, especially in excess demand situations. Private university expenditures per student were 30-40 per cent of public in Brazil, Japan and the Philippines. Several explanations have been put forward. These are discussed below.[1]

(a) Low cost may result from low-quality inputs per student, as shown in *Table 7*. According to Estelle James,

"Recruitment of low-quality academics with inadequate qualifications at a low salary also reduce the cost of education at the cost of quality. For example, in Japan teacher cost per student was four times higher in public universities than in private, and in the Philippines teacher salaries in public universities could be as high as 2.5 times that of private universities. In spite of these limitations, one study suggests that 'the value added by private schools is higher than that in public schools'." (James, 1991).

Table 7. Inputs in higher education

Country	Faculty per student	Books per student	Teaching hours of faculty per week
Japan			
Private	.04	27	–
Public	.12	109	–
Philippines			
Private	.03	–	20-30
Public	.07	–	15-20
Brazil			
Private	.33	–	–
Public	.11	–	–

Source: Based on James (1991).

1. In the absence of data for the Arab States region, we cite examples from countries where such data are available.

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These explanations gave the political rationale for introduction and increase of public subsidies to private universities of Japan;

(b) less costly product mix: teaching as against research, undergraduate programmes, as against graduate programmes, human and social sciences as against science and engineering; and

(c) efficiency argument: economic efficiency is sound if individuals or private entities pay directly for the services they receive. Discipline of the market (competition and desire for profit maximization) forces private universities to operate more efficiently than public universities. In many private institutions, administrative costs have been lowered by proper utilization of staff time, thereby reducing administrative and support staff. They have also reduced academic staff cost by hiring them on a part-time basis or after retirement with a 'topping-up salary'. The efficiency argument also extends itself to 'relevance', in that fee-paying private institutions are obliged to run programmes which are useful to the day's labour market and more employment oriented, with a built-in mechanism for survival.

2. In differentiated demand situations, private institutions would appear to be superior in quality in some important respects because they are freely chosen when less costly public alternatives are available. One recent example is from Pakistan, where a sectarian teacher training institution shows how a private institution can do better than a public institution just by increasing the motivation of the staff and the students and improving work ethics (Schneider, 1997). Scarcity and rigidity of public service has been cited as an impediment to improving the work performance of the academic staff. However, more studies are needed to prove this phenomenon.

3. Equity issue. We have argued before that the government should take over the funding of higher education so that the institution of higher education could be equitable, thus encouraging the participation of students with low socio-economic status. However, later studies show that the equity argument is not that simple. James argues that:

"... in situations where the public budget is politically constrained, allowing (indeed encouraging) the growth of excess-demand-driven private sectors may be the only feasible way to expand educational opportunity. For example, a study of higher educational enrolment ratios in Asia showed that higher enrolment rates were achieved, and at much lower cost, in countries that rely heavily on private provision, such as Japan and the Republic of Korea. This has important equity implications because larger enrolments, by definition, imply downward filtration. Therefore, policies that permit education expansion also broaden access" (James, 1991, p.18).

Indeed empirical studies show that upper socio-economic status (SES) is disproportionately represented in free public institutions of higher education. Sudan, Egypt and Yemen provide evidence of this (Sanyal, 1987).

The explanation is not that complex. Students from higher SES are more likely to pass the entrance examination to selective public universities, are more capable to succeed and bear the foregone earnings. In this context public higher education is hardly egalitarian. To achieve the objective of equity, the best policy would be to cut down on public higher education and allocate these funds to public primary and secondary education and to financial assistance programmes for the qualified underprivileged students in higher education.

The equity issue also becomes important when one observes the earnings differential of higher education graduates and upper secondary level qualifications. In selected OECD countries, for male university graduates this differential varies from 32 per cent in the Netherlands and 92 per cent in Finland, and from 10 per cent in Denmark to 32 per cent in Finland for male non-university tertiary education graduates. In the case of female university graduates this differential is larger, from 16 per cent in Italy to 106 per cent in the United Kingdom (see *Table 8*). These earning differentials result in a significantly higher private rate of return to higher education than social rate of return, implying that "under present financing arrangements (in these countries) higher education is a much better investment for individual students

than the society as a whole, simply because the state bears most of the direct costs" (Williams, 1997). When these benefits go to the relatively well-to-do segments of the society, as empirical criteria show, the equity argument for public financing of higher education is lost.

Table 8. Graduate earnings as percentage of earnings of workers with upper secondary level qualifications

Country	Men University	Men Other tertiary	Women University
Netherlands	132		147
Italy	134		116
Spain	138		149
Austria	146		134
Denmark	146	110	135
Belgium	149	115	164
Sweden	160	118	156
UK	171	121	206
France	174	127	142
Portugal	179	124	188
Finland	192	132	176

Source: Education at a glance, OECD 1995.

4. Privatization has been a worldwide phenomenon. Latin America leads the Third World in its scope, covering almost all nations, while Asia leads the number of countries with majority enrolment in private institutions (in the Philippines it exceeds 80 per cent and in the Republic of Korea 75 per cent). China has more than 1,000 private institutions of higher education, although its enrolment is less than 10 per cent of the total. Most of the countries formerly belonging to the Soviet Union are opening up the private sector rapidly. Even Cuba is privatizing some of the university activities through commercialization. Most of the countries of the Arab States region now have private institutions, as has been mentioned.

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Most of these cases have resulted from a reduction of public funds, the willingness of the private sector to contribute and, in some cases, the profit-motive of the private sector, in the face of massive demand for higher education and differentiated demand from various social groups and economic entities.

8. Arguments against privatization

Before one adopts privatization of higher education, one has to be certain about its merits and disadvantages. We have discussed above the merits of privatization. We would like now to caution the decision-maker(s) about the disadvantages.

1. Privatization, based on 'differentiated demand', may lead to fragmentation along particularistic lines at the cost of broad national goals of forging "a union out of separate ethnic, tribal, religious and regional groups" which is a serious regional concern (Levy, 1993).

2. Privatization faces financial problems because in most cases laws usually do not allow incentives for private contributions. There is a lack of donors in developing countries and the business sector is too weak to support higher education. Fees being the major source, institutions are equipped with low quality inputs, resulting in low quality outputs, as indicated before, especially in 'excess-demand' driven privatization.

3. The equity argument for privatization also has a large number of constraints. As has been argued before, well-to-do segments take undue advantage of free, public, good quality higher education. Unless precautionary measures are taken, poor segments will end up paying fees for low quality private education and rich segments who fail to get a place in the free, good quality public higher education system will go to the few high quality private institutions charging exorbitant fees. This would increase inequity.

4. In 'excess-demand' driven privatization, cheap and low quality higher education in 'soft' subjects, offered to a large clientele, reduces the overall quality of graduates, contributes to unemployment and sometimes to negative or insignificant returns on investment made by the economically disadvantaged individuals.

5. Total reliance on privatization would result in less than optimal levels of expenditure on universities and colleges when it is seen as a national investment because of two types of risks involved: *First:* although, in general, higher education has a higher private rate of return, it is long term and very risky for individuals. Returns for some would be high, for others low, and even negative, as indicated above. *Second:* employers who invest in student sponsorship also face risks in that in a free labour market, graduates whose education was financed by an employer may take their skills elsewhere (Williams, 1997).

6. Some of the benefits of tertiary education accrue to the society as a whole, e.g. for the national interest, higher education should pursue national policy priorities that might have less importance for any of the private stakeholders. Basic research, some economically, socially and culturally strategic disciplines, may not be at all of interest to the private sector.

7. Privatization may encourage corruption. Profit-motive and competition for resources of private institutions look for opportunities to get away with rules and regulations to keep their institutions economically viable. Accounts, reports on performance, means of income generation and working rules often cross the boundaries of legality.

9. The strategies for privatization in higher education

We have discussed both the advantages and disadvantages of privatization of higher education. The state control and financing of higher education also has its advantages and disadvantages, as we have discussed in the paper. Gareth Williams, after analyzing the private rates of return, and demonstrating that these rates are higher, justifying private investments, has shown his reservations on going all out for privatization. He gave the following five main reasons for governments to continue to play an important role in funding higher education:

1. To help ensure that all students are fairly treated.

2. To help avoid waste of talent.

3. To share the investment risks between those for whom it proves to be a good investment and those who are less lucky.

4. To enable society as a whole to profit from the external benefits of having a significant number of its members educated to high levels.

5. To encourage universities and colleges to pursue national policy priorities that might have less importance for any of the other stakeholders (Williams, 1997).

Tilak, in his analysis of 'myths and facts' in respect of privatization, demonstrating its negative effects, has also come to the conclusion that selective types of privatization would be helpful. In particular, he concludes that privatization in the form of relative pricing of higher education through a "discriminatory fee-paying system" where students would be required to pay according to their ability and the costs of courses "would be more efficient, generating additional private resources for higher education, and also more equitable" (Tilak, 1991).

As early as 1981, based on several country studies, Psacharopoulus and Sanyal recommended that: "discriminatory fee-paying system in higher education might redress finance inequity in developing countries". This is a restrictive interpretation of privatization (Psacharopoulus and Sanyal, 1981).

Today, the modes of privatization are taking different forms, with the types of diversification of sources and control, as discussed earlier. In that context educational decision-makers of the Arab States region have to go further to explore the strategies of privatization. Some hints in that direction are given below.

A country has to choose a point in the continuum of privatization which will suit its context best at a particular point of time. We have seen that total funding and controlling of private education runs the risk of many disadvantages. So does total funding and control by the state. A mixed system with a dominant state sector and an encouraged and regulated private sector – the nature of the mixing fitting the particular context – would be ideal. Questions remain about the nature of the mixture. We refer back to different modes of privatization described in **Section 6,** including cost-recovery measures – for example, introducing a discriminatory fee-paying system, a student loans programme, among others listed above. A country will have to select one or a combination of the different modes. In one extreme it may be a private system funded publicly in major part – a phenomenon prevailing in India at present – and in the other extreme a public system funded heavily by the private sector – a phenomenon increasingly being observed in the Philippines, Republic of Korea, the USA and Japan. Whatever the share of the state and the private sector today, the state should move towards financial decentralization so as to encourage the mobilization of untapped resources and raise the system's cost-consciousness with the application of norms for resource allocation and utilization, while providing incentives for operational efficiency. The state should also encourage the private sector's role to serve the society with the application of norms for quality assurance, while providing incentives for equity and excellence. The state should, in particular, take charge

of strategic disciplines and programmes which attract the private sector to a lesser extent. For example, basic research, environmental, cultural and ethical programmes, any programme of strategic importance to the country and, in particular, programmes of financial assistance for the qualified underprivileged.

The system must be flexible with precautionary measures for accountability and transparency, as in the case of any open system following the market forces of demand and supply.

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IIEP Contributions No. 30

How have the patterns of higher education changed over time around the world and why? How have they affected the higher education system of the Arab States region? Why have the resources for higher education in the region become scarce in recent years? What were the effects of the reduced resources on the system's quantitative development? How did the countries of the different sub-regions of the Arab world diversify their financing of higher education? How did they generate new income? What lessons could be learned from the experiences of the other regions? What could be the role of the private sector in the development of higher education? What are the merits and disadvantages of privatization? What strategies could the Arab States region adopt in respect of privatization? Some attempts have been made to answer these questions in this booklet.

The author

Bikas C. Sanyal joined the International Institute for Educational Planning (IIEP), Paris, in 1969 where, in addition to training educational managers, he has directed research programmes on *Higher Education and Employment* (1972-84), *Technological Development and Implications for Educational Planning* (1985-89), and *Institutional Management in Higher Education* since 1990. He is also the author of a large number of books, monographs and papers on educational policy and planning. Mr Sanyal is currently Senior Adviser at the IIEP.

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